

Hancock Holding Company  
Dodd-Frank Act Annual Stress Test  
2016 Results Disclosure



October 27, 2016

*In this report, when we refer to "Hancock", "HHC" or "the Company" we mean Hancock Holding Company and its consolidated subsidiaries. When we refer to "Bank" we mean Whitney Bank, a Mississippi banking corporation, the Company's principal subsidiary.*

*This Report contains certain statements and estimates that may be forward-looking statements, including projections of our financial results and condition and capital ratios under a hypothetical scenario that incorporates a set of assumed economic and financial conditions prescribed by our regulators. The projections are not intended to be our forecast of expected future economic or financial conditions or our forecast of the Company's or the Bank's expected future financial results or condition, but rather reflect possible results under the prescribed hypothetical scenario. Our future financial results and condition will be influenced by actual economic and financial conditions and various other factors as described in our reports filed with the Securities and Exchange Commission, including our Annual Report on Form 10-K for the year ended December 31, 2015, all of which are available on our website [www.hancockwhitney.com](http://www.hancockwhitney.com). The Company assumes no obligation to update or revise any of its forward-looking statements in this Report.*

## **EXECUTIVE SUMMARY**

The results of Hancock's DFAST stress test indicate that the Company would maintain sufficient financial resources to successfully manage the impacts expected during a severe economic downturn. We note, however, that testing methodologies are subject to considerable uncertainties and modeling limitations and that the scenario simulation reflects certain assumptions that may not be consistent with the Company's practices over the normal course of business, even under adverse economic conditions.

Highlights of the DFAST results include:

- Hancock would maintain capital levels that exceed the regulatory definition of well-capitalized and regulatory minimums throughout the nine-quarter course of the Severely Adverse scenario;
- Under the supervisory Severely Adverse scenario, Hancock experiences elevated credit losses of \$395 million and projects a provision for loans and leases of \$464 million in response to the deteriorating operating environment; and
- In accordance with the DFAST guidance, Hancock used its Capital Management Policy to guide capital actions for the 2016 DFAST exercise.

## **Overview**

Hancock Holding Company is a multi-faceted financial services company with regional business headquarters and locations throughout a growing Gulf South corridor. With a heritage dating to the late 1800s, the Company's banking subsidiary, Whitney Bank provides a comprehensive network of full-service financial choices through Hancock Bank locations in Mississippi, Alabama, and Florida and Whitney Bank offices in Louisiana and Texas.

As a bank holding company with total consolidated assets between \$10 billion and \$50 billion, Hancock is required to implement the stress testing and disclosure requirements of Section 165(i)(2) of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010. A stress test is defined in the Dodd Frank Act as a “process to assess the potential impact of certain scenarios on the consolidated earnings, losses and capital of a Company over the planning horizon, taking into account its current condition, risks, exposures, strategies, and activities.” Stress testing is an important analytical tool regularly used by Hancock to evaluate financial and capital forecasts under various adverse economic conditions as part of the Company’s capital planning processes.

Hancock recently performed an enterprise-wide capital stress test in conformity with the requirements of the Federal Reserve Board’s Dodd-Frank Act Stress Test (“DFAST”) process using the Company’s actual performance through December 31, 2015 and information available to conduct the exercise. The purpose of the stress test was to assist in the identification and measurement of material risks and vulnerabilities, particularly those that manifest during stressful economic or financial environments, and to determine their potential impact on the Company’s capital adequacy. The stress test covered the nine-quarter planning horizon beginning in the first quarter of 2016 (January 1, 2016) and ending on March 31, 2018.

The Company’s DFAST stress test included three macroeconomic scenarios: Baseline, Adverse and Severely Adverse. These macroeconomic scenarios as developed by the Federal Reserve Board (“FRB”) form the foundation for the 2016 DFAST process. To support the stress testing effort, HHC employed a process that incorporated regulatory guidance and standard industry practices to assess overall capital adequacy in relation to the Company’s complexity and risk profile together with a strategy for maintaining adequate capital levels.

In accordance with regulatory requirements of DFAST, this document presents a summary of Hancock’s Stress Test results conducted under the Severely Adverse Scenario, as provided by the FRB. The results of Hancock’s Stress Test indicate that under this hypothetical scenario the Company would expect to maintain capital levels that exceed regulatory minimums throughout the course of such scenario.

The projected results disclosed in this document are hypothetical estimates and projections based on the requirements and assumptions prescribed by the FRB’s DFAST guidance. These projected possible results should not be considered a forecast of expected financial results, financial condition or Company performance under actual economic and financial conditions that may differ from the scenarios prescribed by our regulators.

It is also important to note that the DFAST protocol requires us to make projections based on specific parameters and assumptions that may differ significantly from the assumptions and parameters that we may apply in the ordinary course of business. Consequently, the results contained herein may differ materially from other financial information or projections that we may disclose as well as from the assessments of our future prospects made by third party analysts. Year to year comparisons of our DFAST results will be impacted by annual changes in the stress test scenarios to account for changes in the outlook for economic and financial conditions, and changes to the specific risks or vulnerabilities that the regulatory agencies determine should be considered in the annual stress test.

## 2016 DFAST Severely Adverse Scenario Summary

For all scenarios, the Company used the “2016 Supervisory Scenarios for Annual Stress Tests Required under the Dodd-Franck Act Stress Testing Rules and the Capital Plan Rule” published by the Board of Governors of the Federal Reserve System on January 28, 2016.

The Severely Adverse scenario represents a severe global recession, accompanied by heightened corporate financial stress and negative yields for short-term U. S. Treasury securities. Specific attributes of the Severely Adverse scenario include the following:

- Real GDP declines beginning in Q4 2015 and continues through Q1 2017 to 6.25% representing a decrease greater than what was experienced during the Great Recession when Real GDP fell 4.2%
- Unemployment rises five percentage points from current levels, and peaks at 10% in mid-2017
- Headline consumer price inflation rises from 0.25% (annualized) in the Q1 2016 to 1.25% (annualized) by the end of the scenario
- Driven by severe decline in real activity and subdued inflation, short-term Treasury rates fall below zero to -0.5% by mid-2016 and remain at that level through the cycle. The 10-year Treasury yield falls to approximately 0.25% in Q1 2016 then gradually rises to 0.75% by the early 2017. By Q1 2019, it increases to around 1.75%
- Due to decline in corporate credit quality, due to elevated credit losses, heightened investor risk aversion, and stressed market liquidity conditions, spreads between yields on BBB corporate bonds and yields on long-term Treasury securities increase to 5.75% by the end of 2016
- Equities fall nearly 50% through Q4 2016, with market volatility approaching levels experienced in 2008
- Declines in real estate (House prices down 25% over the scenario, CRE down 30% at its lowest point)

## 2016 DFAST Results under the Severely Adverse Scenario

The following tables provide quantitative information for Hancock’s 2016 DFAST stress test run under the Severely Adverse scenario. As reflected in the table below, the Company’s regulatory capital ratios would remain above the regulatory definition of well-capitalized and regulatory minimums throughout the nine-quarter planning horizon. These results use assumptions prescribed by the DFAST rules under a supervisor-supplied scenario and are not forecasts and do not necessarily reflect Hancock’s expectations of performance.

**Table 1. Projected Stressed Capital Ratios for the Company Q1 2016 through Q1 2018 under the Supervisory Severely Adverse Scenario**

HANCOCK HOLDING COMPANY						
Capital Ratios (%)	Actual Q4 2015	Severely Adverse Scenario			Regulatory Minimum	Regulatory Well-Capitalized
		Beginning Q1 2016	Minimum	Ending Q1 2018		
Common Equity Tier 1	10.0	8.8	8.8	9.2	4.5	6.5
Tier 1 Risk-Based Capital	10.0	8.8	8.8	9.2	6.0	8.0
Total Risk-Based Capital	11.9	11.0	11.0	11.3	8.0	10.0
Tier 1 Leverage	8.6	7.6	7.1	7.5	4.0	5.0
Risk Weighted Assets (\$Bn)	18.5	19.1	17.2	18.1	n/a	n/a

**Table 2. Projected Cumulative Stressed Losses, Revenue and Net Income for the Company Q1 2016 through Q1 2018 under the Supervisory Severely Adverse Scenario**

HANCOCK HOLDING COMPANY			
Cumulative 9-Quarter Total (\$Millions)		% of Average Assets	% of Average Loans
Loan Losses	395	1.7%	3.0%
Provision for Loan & Lease Losses	464	2.0%	3.5%
Pre-Provision Net Revenue	407	1.8%	n/a
Net Income (Loss)	(41)	(0.2%)	n/a

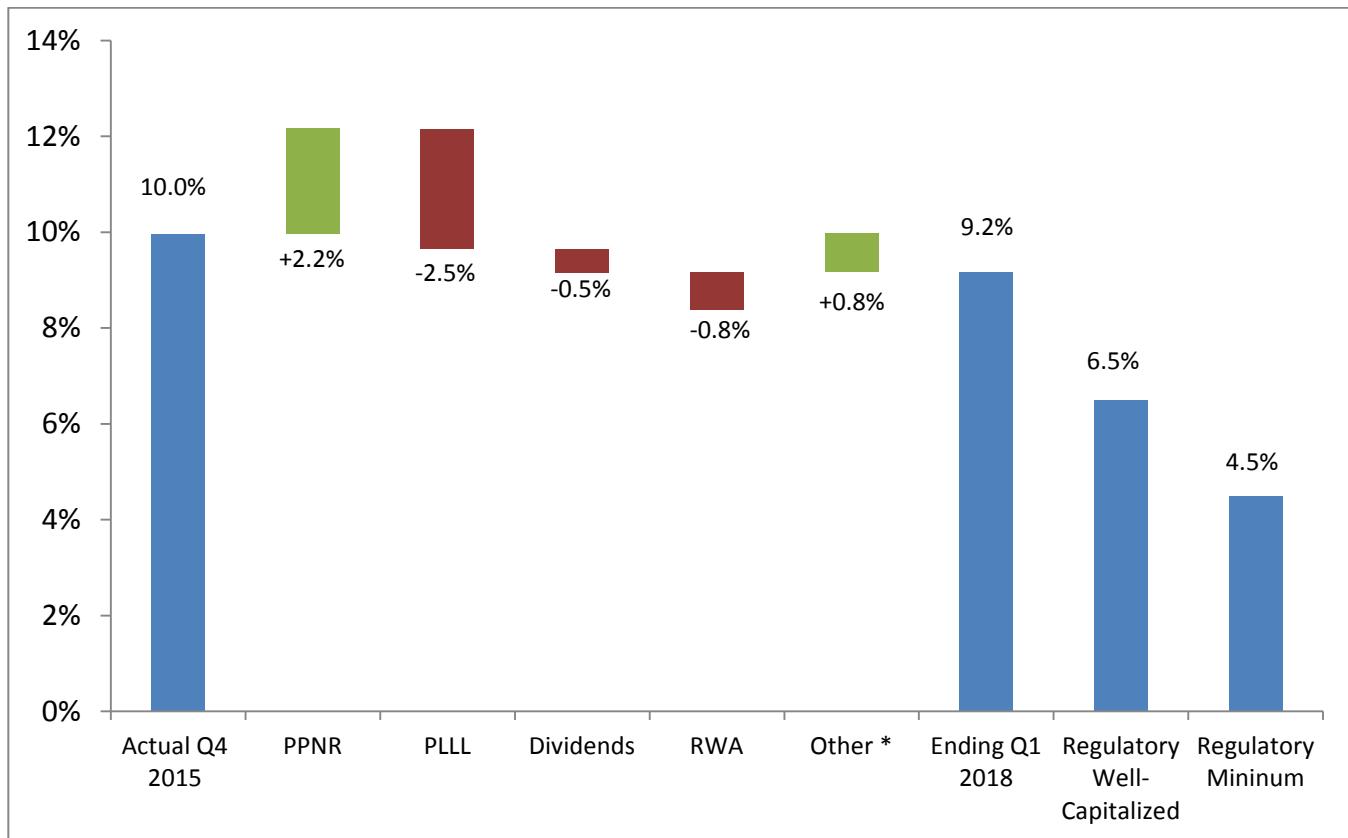
Pursuant to disclosure guidelines under DFAST, the Company is also disclosing summary stress test results for its principal FDIC insured depository subsidiary, Whitney Bank (“Whitney”). Whitney Bank is the wholly-owned principal banking subsidiary of Hancock Holding Company. Whitney represents more than 99% of HHC’s total assets, thus the two entities would be impacted by the Supervisory Severely Adverse Scenario in largely the same way and Whitney would also remain above the regulatory definition of well-capitalized and regulatory minimums under the Severely Adverse scenario.

**Table 3. Projected Stressed Capital Ratios for Whitney Bank Q1 2016 through Q1 2018 under the Supervisory Severely Adverse Scenario**

Capital Ratios (%)	Actual Q4 2015	WHITNEY BANK			
		Severely Adverse Scenario			Regulatory Minimum
		Beginning Q1 2016	Minimum	Ending Q1 2018	
Common Equity Tier 1	10.6	9.5	9.5	9.6	4.5
Tier 1 Risk-Based Capital	10.6	9.5	9.5	9.6	6.0
Total Risk-Based Capital	11.7	10.8	10.8	10.9	8.0
Tier 1 Leverage	9.2	8.2	7.5	8.0	4.0
Risk Weighted Assets (\$Bn)	18.5	19.1	17.2	17.0	n/a

## Primary Drivers of Change in Capital Ratios

**Table 4. Drivers of Change in Common Equity Tier 1 Capital Ratio Q1 2016 through Q1 2018 under the Supervisory Severely Adverse Scenario**



\* Other includes all other adjustments, including goodwill, other intangibles, disallowed deferred tax asset and income taxes.

The most significant drivers impacting the change in the Company's capital ratios during the hypothetical Severely Adverse scenario are outlined below:

**Credit Losses:** Credit quality would be expected to decrease during such economic conditions, resulting in \$395 million in loan losses over the nine-quarter horizon. Elevated energy portfolio related losses contributed to higher loss rates representing over 20% of credit losses for most quarters during the planning horizon.

**Decreased Revenue:** Total revenues would decline over the scenario, as net interest income would decrease due to projected negative interest rate environment resulting in net interest margin compression. Non-interest expenses would increase slightly due to increases in collection and recovery expenses and increased operational risk losses. Pre-provision net revenue during 2016 remained fairly flat, but decreased by \$100 million by the end of 2017; roughly 41% lower than 2015.

**Risk Weighted Assets (“RWA”):** Risk weighted assets declined by \$372 million (2%) between December 31, 2015 and March 31, 2016. In the first quarter of the stress test, RWA increased by \$631 million (3.4%) due to a \$776 million increase in other assets (excluding cash and balances due). The level of other assets remains elevated throughout the planning horizon. This increase is offset by the 25% decline in loan balances.

**PLL:** Given the increase in credit losses, the PLL would be expected to rise significantly, increasing 155% between Q4 2015 (actuals) and Q1 2016 (Severely Adverse Scenario) in response to higher energy related losses. Over the nine-quarter horizon, a \$464 million provision expense exceeds \$407 million in pre-provision net revenue.

## Risks Captured in the Stress Test

A critical component of the overall stress testing process was the effective capture of the material risks which impact the Company. The Company's Stress Test evaluated and incorporated a variety of risks, including credit risk, market rate risk, liquidity risk, market risk, operational risk and legal risk in a stressed economic and financial operating environment to determine the impact on the Company's financial performance and corresponding capital levels and to predict the resulting capital ratio projections for the given stress horizon. Although these risks are individually assessed as part of the Company's ongoing risk management practice, the enterprise-wide capital stress test applied one consistent set of economic assumptions for each scenario to all quantifiable risks across business lines to determine the overall impact on capital levels.

**Credit risk** arises from the potential that a borrower or counterparty will fail to perform on an obligation.

**Market risk** is the risk to a financial institution's condition resulting from adverse movements in market rates or prices, including, but not limited to, interest rates, foreign exchange rates, commodity prices, or equity prices.

**Liquidity risk** is the potential that a financial institution will be unable to meet its obligations as they come due because of an inability to liquidate assets or obtain adequate funding (referred to as “funding liquidity risk”) or that it cannot easily unwind or offset specific exposures without significantly lowering market prices because of inadequate market depth or market disruptions (referred to as “market liquidity risk”).

**Operational risk** is risk resulting from inadequate or failed internal processes, people, and systems or from external events.

**Legal risk** is the potential that unenforceable contracts, lawsuits, legal sanctions or adverse judgments can disrupt or otherwise negatively affect the operations or condition of a banking organization.

The below risks were not specifically captured in the Stress Test, but management believes they are addressed peripherally in the stress testing methodology and will investigate options to enhance the capture of these risk.

**Compliance risk** is the risk of regulatory sanctions, fines, penalties or losses resulting from failure to comply with laws, rules, regulations, or other supervisory requirements applicable to a financial institution.

**Strategic risk** is the risk to current or anticipated earnings, capital, or franchise or enterprise value arising from adverse business decisions, poor implementation of business decisions, or lack of responsiveness to changes in the banking industry and operating environment.

DFAST is one component of the broader stress testing activities conducted by Hancock. The results of DFAST are considered together with other capital assessment activities to ensure that the Company's material risks and vulnerabilities are appropriately considered in its overall assessment of capital adequacy.

DFAST assesses the impact of stressful outcomes on capital adequacy, and is not intended to measure the adequacy of the Company's liquidity in the stress scenarios.

## **Methodologies Used**

To develop the projections necessary to complete the 2016 DFAST Submission, Hancock employed multiple modeling techniques and quantitative analyses to produce the Balance Sheet and Income Statement projections required under the three supervisory scenarios. The projections were then compiled and, through a heavily-governed process, underwent a series of effective challenges at various levels within the Company. As part of this process, senior management committees, the Audit and Risk Committees of the Board of Directors, and the full Board of Directors reviewed, challenged, and approved the risk assessment process and financial projections contained in this report. As a result of the challenge process, select qualitative adjustments were made to enhance model predictions and to ensure model results were appropriate and reasonable.

On December 2, 2015, the Federal Reserve Board made amendments to the Capital Plan and Stress Test Rules. For bank holding companies with more than \$10 billion but less than \$50 billion in total consolidated assets and savings and loan holding companies with total consolidated assets of more than \$10 billion, the final rule modifies certain mandatory capital action assumptions in the stress test rules and delays the application of the company-run stress test requirements to savings and loan holding companies until January 1, 2017. The final rule eliminates the requirement that bank holding companies use fixed assumptions regarding dividends in their stress tests. Bank holding companies instead are required to incorporate reasonable assumptions regarding payments of dividends consistent with internal capital needs and projections. Consistent with the revised rule, Hancock used its Capital Management Policy to guide capital actions for the 2016 DFAST exercise.